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## **Austria**

## **Tobacco and Products**

## **Annual**

## **2001**

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### **Report Highlights:**

**Increased cigarette production resulted in higher consumption and imports of leaves in 2000. Stagnant cigarette exports and a small drop in domestic cigarette consumption should result in a corresponding effect in cigarette production and consequently leaf consumption in 2001. Imports of U.S. leaves should remain fluctuating on the 2,400 MT level. Imports of U.S. cigarettes are negligible.**

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Includes PSD changes: Yes  
Includes Trade Matrix: Yes  
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## Executive Summary

Tobacco production is a small side line of Austrian agriculture. While the number of tobacco growers is declining, tobacco area shows a rising trend. Due to favorable weather in summer and fall, the 2000 yields reached a new record level and the quality was excellent.

The Austrian cigarette market is saturated. Given the rising prices of Austrian cigarettes, official sales are expected to drop slightly in 2001. For this reason and due to expected stagnant exports, cigarette production will be reduced. As a consequence, tobacco consumption and import should decline. Leaf imports from the U.S. have been fluctuating at around 2,400 MT. No change is expected in 2001.

Cigarette exports increased 16% in 2000, primarily due to larger deliveries to Germany. At the same time imports rose 5% and a further increase is expected for 2001. Imports of U.S. cigarettes are negligible but domestic production of U.S. license cigarettes is significant.

Average rate of exchange: US dollar 1 = AS 12.91 in 1999  
AS 14.93 in 2000  
AS 15.34 on May 17, 2001

## Tobacco, Unmfg., Total

### Production

PSD Table						
Country	Austria					
Commodity	Tobacco, Unmfg., Total				(HA)(MT)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Area Planted	101	109	102	111	0	115
Beginning Stocks	15205	15205	15028	15028	15382	15237
Farm Sales Weight Prod	216	216	208	297	0	200
Dry Weight Production	191	191	184	263	0	177
U.S. Leaf Imports	2400	2400	2450	2350	0	2300
Other Foreign Imports	15990	15990	17100	16480	0	15930
TOTAL Imports	18390	18390	19550	18830	0	18230
TOTAL SUPPLY	33786	33786	34762	34121	15382	33644
Exports	120	120	180	50	0	120
Dom. Leaf Consumption	140	140	190	170	0	240
U.S. Leaf Dom. Consum.	2448	2448	2460	2343	0	2300
Other Foreign Consump.	16050	16050	16550	16321	0	15790
TOTAL Dom. Consumption	18638	18638	19200	18834	0	18330
TOTAL Disappearance	18758	18758	19380	18884	0	18450
Ending Stocks	15028	15028	15382	15237	0	15194
TOTAL DISTRIBUTION	33786	33786	34762	34121	0	33644

### Crop Area

According to the tobacco producer organization, the number of tobacco growers shows a downward trend. In 2000 it declined 2% to 86 producers and in 2001 a drop of 8 - 10% is expected.

In contrast to grower numbers, the tobacco area is slightly increasing. In 2000, the area rose 2% to 111 ha and in 2001 a further rise by 3 - 4% is expected.

The main type of Austria's limited tobacco production is burley. Test production with dark air cured tobacco intended for cigars were again taken up.

Except a few producers in the dry eastern areas tobacco growers are not equipped for field irrigation.

Tobacco is collected by the tobacco producer organization and shipped to the company Diamon Rota in Karlsruhe, Germany, for processing. In the period mid November - end of January, producers bring their leaves to five collecting points.

Austria Tabak's (AT) commitment to buy all Austrian tobacco output expired in 1998. Nevertheless, AT will continue to use up all domestic burley production. The tobacco grower association has a three-year agreement with the producer organization and the tobacco processing firm. After expiration of the current agreement, renewal is expected.

#### Yields

Weather conditions were extraordinarily conducive for tobacco production in 2000 which resulted in a new record yield of 2.7 MT/ha. As in the last 5 - 6 years, blue mold was no problem.

In 2001, tobacco plants developed quite well in seed beds. Low temperatures in mid April required additional heating. All seed beds are in glass houses or plastic tunnels; almost all can be heated. Field conditions for planting seedlings are good. Transplanting is expected to finish in the last May week.

#### Quality

Excellent 2000 weather conditions resulted not only in a new record for output but also in a large volume of quality leaves. Hale damage was minor. The share of first and second grade quality was 91% (-2% compared to 1999).

## Production Policy

Since EU accession, any farmer is permitted to produce tobacco. Interested farmers must apply to Agricultural Market Austria (AMA), which is responsible for Austria's EU production quotas and direct payments. Due to Austria's relatively large tobacco quota (600 MT), newcomers are gladly accepted.

In 2000, the producer price for first grade tobacco was AS 12.50/kg (-7%), second grade AS 8.00/kg (-33%), and for third grade AS 1.00/kg (unchanged). Depending on the moisture content, a bonus of AS 0.8 - 10/kg is given. In addition, tobacco producers received the normal EU premiums. The fixed premiums for grade I and II tobacco was AS 8.20/kg and the variable premium AS 35.40/kg. In 2001, the variable premium will increase on cost of the fixed premium. This should be an incentive for further quality improvement.

## Consumption

The increased cigarette output tracked a corresponding rise in tobacco consumption in 2000. In 2001, the expected drop in cigarette output should match further decline in cigarette sales. Leaf use for other tobacco products than cigarettes is small.

## Trade

Official 2000 tobacco trade data cannot be used as they are much too low. Instead of official trade data, figures provided by AT were used in PSDs. However, AT cannot provide trade figures by countries so no trade matrix is provided. We will continue to probe and explore for this information.

Given increased demand, imports in 2000 rose 2.4% compared to 1999. A slight decline in consumption of U.S. tobacco resulted in somewhat smaller imports of U.S. tobacco.

In 2001, tobacco imports should decline because of the expected drop in cigarette production and the relatively large tobacco stocks. The lower requirement may also result in decreased imports of U.S. tobacco.

As Phillip Morris does not reveal its tobacco recipes for its cigarettes produced under license in Austria, tobacco already blended for these cigarettes is imported from the U.S. Blends for other U.S. license cigarettes are prepared by AT.

## Marketing

The production monopoly for cigarettes remains with AT despite EU membership. Thus, all promotional activities have to be conducted by AT. According to AT, no foreign countries promote their tobacco in Austria.

A certain quantity of U.S. tobaccos will always be required since the special flavor of these tobaccos can hardly be replaced by leaf from other countries. In addition, special blends for Marlboro licensed cigarettes will come from the U.S. at least for several more years.

## Tobacco, Mfg., Cigarettes

### Production

PSD Table						
Country	Austria					
Commodity	Tobacco, Mfg., Cigarettes				(MIL PCS)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Filter Production	23100	24520	25200	25599	0	25300
Non-Filter Production	200	76	100	67	0	60
TOTAL Production	23300	24596	25300	25666	0	25360
Imports	1500	1602	1900	1681	0	1700
TOTAL SUPPLY	24800	26198	27200	27347	0	27060
Exports	9200	10171	12700	11803	0	11800
Domestic Consumption	15600	16027	14500	15544	0	15260
TOTAL DISTRIBUTION	24800	26198	27200	27347	0	27060

In Austria there are three cigarette factories. All belong to AT and are located in Linz (8 - 9 billion pieces/year, around 230 employees), Hainburg (6 - 7 billion pieces/year, 194 employees), and Schwarz (about 4 billion pieces/year, 95 employees). In addition, AT owns a cigar factory in Fuerstenfeld where about 50 workers are employed. All plants produce AT's own brands (42) and licensed brands (21) including U.S. brands of Philip Morris, Reemtsma, Reynolds, BAT, and Brown and Williams.

Since 1999, AT owns also a cigarette factory in Sweden. To save costs, this factory or one of the three Austrian cigarette factories will be closed in 2002. As the productivity of the Austrian factories is the top of European productivity with 50 million cigarettes per employee, probably the less productive Swedish factory will be closed.

As EU passed a regulation that the words "mild" and "light" must not appear on cigarette packages beginning 2003, AT fears that the sale of one of their main cigarettes "Milde Sorte" may diminish from the market or that at least the turnover will decline. AT invested huge amounts in the development of this cigarette brand of which 2 billion (including exports) are sold. In addition, AT is very unhappy with the EU decision to reduce maximum limits of tar to 10 milligram (mg) and nicotine to 1 mg per cigarette for EU and export cigarettes. This will affect 2 billion export cigarettes.

Given the high requirement for exports, 2000 cigarette production increased by 4.4%. Traditionally, almost all (99.7%) were filter-tipped cigarettes.

Due to expected drop in domestic sales and stagnant exports, the 2001 production should decline by about 2%. The share of filter-tipped cigarettes will probably again increase marginally.

The 2000 assortment was enriched by the new brands Nil lights and Memphis Platinum. In 2001 AT is expected to bring again two new own brands to the market.

A number of AT's cigarettes are manufactured under license in Hungary, Slovakia, Czech Republic, and Croatia, which produce each year a combined number of about 0.5 billion Austrian brand cigarettes. Due to the 1999 acquisition of the Swedish cigarette factory Swedish Match and the Estonian tobacco wholesale business, AT's cigarette sales on international markets rose 21% to 16 billion in 2000.

## Consumption

In 2000, 15.4 billion cigarettes were officially sold in Austria, down 1% from 1999. According to AT, the decline was mainly a result of the "millennium effect" (hoarding in December 1999; record sale in 1999). (Note: The correct consumption figures for 1999 are 15.585 billion, 2000 15.441 billion, and 2001 15.300 billion pieces. Since PSD tables do not include stocks, domestic consumption figures had to be adjusted to balance total supply and distribution.)

Of the total sales, 53% were AT's own brands, 35% license brands and 12% imported cigarettes. The decline in sales of AT's own brands as compared to 1999 (-4%) was largely due to a further price increase of AT's brands in April 2000.

According to AT, the large consumption increase of 3.5% is still a consequence of the changes in the legal framework governing private imports (since July 1, 1998, the permitted private imports of cigarettes from third countries has been reduced from 200 pieces to 25 pieces) and sharper border controls. Thus, the increased sale is less a real increase in cigarette consumption than a shift from private imports or smuggling to legal domestic purchases by smokers.

At the end of December 2000, the cigarette brand range on the Austrian market was fairly unchanged compared to 1999. It included 43 AT brands (+1), 21 license brands (unchanged), and 68 (+2) imported brands. However, six brands account for 56.4% of total consumption. They are as follows:

Memphis Classic	15.5%
Marlboro	13.5%
Marlboro Lights	10.1%
Milde Sorte Classic	7.2%
Memphis Lights	5.1%
Gauloises and Legeres	5.0%

The rising difference between Austrian cigarettes and smuggled cigarettes is expected to effect domestic sales. Thus, in 2001, domestic sales are expected to decline slightly.

No major anti-smoking campaigns took place in 2000 and in 2001 none are expected.

Due to rising imports by AT, the number of brands fluctuates considerably within a year but shows an upward trend. Since EU accession, AT has been offering a constantly increasing number of imported cigarettes and imported brands. The number of AT's own brands and license brands has remained stable and no change is

expected. In addition, little fluctuation should take place within the leading six cigarette brands.

According to AT, in Austria there are 6.5 million persons above 16 years of which around 30% are smokers. (Smokers are only counted if they are above 16 years. Smoking is legally permitted above this age.) The average smoker smokes 23 cigarettes per day which results in around 17 billion cigarettes total annual consumption of the Austrian population. Thus, theoretically the market would be saturated with 17 billion pieces. However, due to legal and illegal private imports, this figure cannot be reached.

### Prices

On January 15, 2001, prices for 265 tobacco articles were increased. Prices of most AT's own brands rose by AS 2/package, while prices of license brands and import brands rose by AS 1/package. According to AT, the price adjustment was necessary because of the unfavorable Euro - dollar rate (higher tobacco prices) and higher transportation costs. The stronger price rise for AT brands is in line with the intention to raise them to the price level of the international brands. At present, no further price rise is expected for the current year.

The price increase further widened the difference between officially sold cigarettes and smuggled ones.



## Cigarette Price in AS per Piece

Brand	New Price	Old Price
Milde Sorte	1.85	1.75
Milde Sorte de Luxe	2.00	1.90
Memphis Classic	1.85	1.75
Memphis Lights	1.85	1.80
Gauloises Blondes	2.00	1.95
Hobby	1.80	1.70
Falk	1.80	1.70
York	1.80	1.70
Dames	1.80	1.70
Players #6	2.10	2.05
Smart Export	1.80	1.70
Camel Medium	2.10	2.05
Flirt Filter	1.65	1.55
Jonny filter	1.80	1.70
Marlboro Lights 100s	2.25	2.20
Player's M.N.C.	2.15	2.10
Chesterfield Original	2.00	2.00
Benson & Hedges	2.15	2.10
Cartier Vendome Lights	2.35	2.30
Davidoff Classic	2.25	2.20
Dunhill International	2.35	2.30
Marlboro Medium	2.15	2.10
Philip Morris Super Lights	2.15	2.10

US dollar 1 = AS 15.34 on May 17, 2001

#### Retail Trade

All outlets of tobacco and tobacco products (special tobacco shops, hotels, restaurants, gas stations, etc.) must have a license from an agency of the Finance Ministry. In Austria there are 3,200 special tobacco shops (“trafiken”) and 5,800 other outlets (hotels, etc.). The latter buy from special tobacco shops (“trafiken”) and add a profit margin of up to 20% to the normal retail price.

## Trade

### Exports

In 2000, Austrian cigarette exports rose 16.3%. Again the major share, i.e. around 68% of total exports went to other EU countries. The main increase was recorded in exports to Germany (+21%). Thanks to AT's distribution group Lekkerland - Tobaccoland, AT remains market leader for generic cigarettes in Germany. In this sector, Austrian exports recorded strong growth. In general, generics are winning a growing share of the overall cigarette market in Germany. Shipments to Italy rose 31% but from a low basis. Exports to most other EU countries declined. Deliveries to central European countries rose 60% and to Guinea, Austria's most important market outlet in Africa declined only slightly.

After several years of rising exports, the 2001 exports may stagnate or even decline slightly. Sales to CIS area will not go up because of the economic crisis. Despite a distribution network in the Yokohama area, there is little hope for significantly larger exports to Japan. In general, the previous hopes on Asian markets such as China, South Korea, and Taiwan may not be met soon.

Export Trade Matrix			
Country	Austria		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	1999	Units:	
Exports for:		Million Pieces	1
U.S.	0	U.S.	24
Others		Others	
Germany	6087	Germany	7370
Guinea	1985	Guinea	1943
United Kingdom	277	Slovenia	389
Slovenia	248	Jugoslavia	300
Somalia	227	Hungary	285
Italy	165	Italy	217
Netherlands	158	Somalia	184
Greece	152	Djibouti	164
Jugoslavia	139	United Kingdom	139
Hungary	121	Greece	134
Total for Others	9559		11125
Others not Listed	612		654
Grand Total	10171		11803

### Imports

Since EU accession, cigarette imports have risen steadily. In 2000, deliveries from abroad rose by 5% compared to 1999. In contrast to 1999, 16,000 pieces of U.S. cigarettes were imported for the UN commissary. Except a small amount from the United States, central European countries and developing countries, 99.6% of all supplies came from EU countries.

The trend to increasing cigarette imports should continue in 2001 and the short term future. As in the past years, the bulk should come from other EU countries, particularly Germany and France.

Imports of U.S. cigarettes will remain negligible but there is a significant domestic production of U.S. license cigarettes.

Import Trade Matrix			
Country	Austria		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	1999	Units:	2000
Imports for:		Million Pieces	1
U.S.	0	U.S.	
Others		Others	
Germany	752	Germany	823
France	582	France	656
United Kingdom	96	United Kingdom	100
Netherlands	89	Netherlands	75
Japan	48	Italy	14
Brazil	13	Denmark	7
Italy	12	Brazil	6
Denmark	9		
Belgium	1		
Total for Others	1602		1681
Others not Listed			
Grand Total	1602		1681

## **Policy**

In contrast to previous intention, the Austrian Industry Share Holding (a government organization which is responsible for the privatization of state owned companies), which is holding 41.9% of total AT shares, did not reduce its share to 31% in fall 2000 or early 2001. For some time the sale of all state owned shares is under discussion. Probably the shares will not be sold to individuals through the stock exchange but the whole package will go to a tobacco company. AT believes that an interested tobacco company may pay a higher price. Possibly a price of AS 6 - 7 billion can be achieved. Concrete interest showed already 7 companies, among other Reemtsma and Altadis.

## **Marketing**

Since sales can only be made through AT, which is interested in promoting its own brands, there are no market development opportunities for cigarettes imported from the U.S. AT is the only importer of tobacco and cigarettes, and the only producer of tobacco products. Despite the fall of the wholesale monopoly, AT still controls practically the whole tobacco/products market. Legally tobacco trade is liberalized but in practical terms AT has still a monopoly position.